

Program Memorandum Intermediaries

Department of Health and
Human Services (DHHS)
HEALTH CARE FINANCING
ADMINISTRATION (HCFA)

Transmittal A-01-11

Date: JANUARY 18, 2001

CHANGE REQUEST 1519

SUBJECT: Changes to Federal Fiscal Year (FY) 2001 Inpatient Hospital Payments As Required By The Benefits Improvement And Protection Act (BIPA) Of 2000 (Public Law 106-554)

The BIPA 2000, enacted on December 21, 2000, contained numerous provisions affecting inpatient hospital payment policies. These provisions have varying effective dates. This Program Memorandum (PM) is to notify you of those provisions that were either effective retroactively to October 1, 2000, upon enactment of BIPA 2000 (December 21, 2000), or will be effective on April 1, 2001. In some cases, further policy development will be necessary and further instructions will be forthcoming. Also, where necessary, implementing changes will be forthcoming to the cost reporting forms and instructions. Post this information immediately on your web site and distribute to your providers through your next bulletin.

Treatment of Rural and Small Urban Disproportionate Share Hospitals (DSH)

Section 211 of BIPA 2000 amended ' 1886(d)(5)(F)(v) of the Social Security Act (the Act), by lowering the thresholds by which certain classes of hospitals qualify for DSH. Specifically, for discharges occurring on or after April 1, 2001, the qualifying DSH percentage is reduced to 15 percent for sole community hospitals (SCHs), rural referral centers, and other small rural and urban hospitals. Also, a formula will be used to calculate DSH adjustments for these groups of hospitals that have a DSH percentage equal to or greater than 15 percent and less than 19.3 percent. For SCHs and rural referral centers with a DSH percentage equal to or greater than 19.3 percent, but less than 30 percent, a flat 5.25 percent adjustment applies, and a formula again applies to the DSH adjustment for these same hospitals with a DSH percentage equal to or greater than 30 percent. A hospital that is both a SCH and a rural referral center or a small rural hospital receives a flat 5.25 percent adjustment if its DSH percentage is equal to or greater than 19.3 percent. These revisions for FY 2001 will be incorporated into PRICER 01.2 (estimated release date, April 2001).

Medicare-Dependent, Small Rural Hospitals (MDH)

Section 212 of BIPA 2000 provides an option to base eligibility for MDH status on discharges during two of the three most recently audited cost reporting periods. An otherwise qualifying hospital would be able to be classified as a MDH if at least 60 percent of its inpatient days or discharges were attributable to Medicare Part A beneficiaries during two of the three most recently audited cost reporting periods, for which the Secretary has a settled cost report, effective with discharges on or after April 1, 2001. Additional information related to implementing this provision will be forthcoming.

Sole Community Hospitals (SCHs)

Section 405 of the Balanced Budget Refinement Act (BBRA) of 1999 included a 1996 rebasing option for hospital cost reporting periods beginning October 1, 2000, that was limited to SCHs that received payment based on their hospital-specific rate for reporting periods beginning in 1999. This amendment allowed eligible SCHs to use this 1996 target amount rather than either their FY 1982 or FY 1987 target amounts. Section 213 of BIPA 2000 extends this rebasing option to **all** SCHs and mandates that this extension is to be implemented as if it had been included in ' 405 of the BBRA 1999 (effective for cost reporting periods beginning on or after October 1, 2000).

See the August 1, 2000, *Federal Register* (65 FR 47082) and PM A-00-66 for information related to implementing ' 405 of BBRA 1999. For purposes of calculating a hospital's 1996 target amount (both in relation to ' 405 of the BBRA 1999 and ' 213 of BIPA 2000), the case mix index should be taken from the hospital's 1996 Provider Statistics and Reimbursement Report.

Revision of Prospective Payment System (PPS) Standardized Amounts

Section 301 of BIPA 2000 amends ' 1886(b)(3)(B)(i) of the Act by changing the percentage increase for the hospital inpatient payment rates for FY 2001. For FY 2001, hospitals (other than SCHs) will receive the market basket percentage increase plus 1.1 percentage points for discharges occurring on or after April 1, 2001, and before October 1, 2001. Any discharges occurring on or after October 1, 2000, and before April 1, 2001, will be paid in accordance with the standardized amounts set forth in the FY 2001 hospital inpatient PPS final rule published August 1, 2000, in the *Federal Register* (65 FR 47126). These rates were calculated using the market basket percentage increase minus 1.1 percentage points, as directed by ' 1886(b)(3)(B)(i) of the Act, prior to the passage of BIPA 2000. These revisions for FY 2001 will be incorporated into PRICER 01.2.

Indirect Medical Education (IME)

Section 302 of BIPA 2000 modified the transition for the IME adjustment that was first established by the Balanced Budget Act (BBA) of 1997 and revised by BBRA 1999. Prior to the passage of BIPA 2000, the IME adjustment formula for discharges during FY 2001 was: $1.54 * [(1 + \text{resident-to-bed ratio})^{.405} - 1]$.

Section 302 of BIPA 2000 provides for an IME adjustment formula for discharges occurring on or after April 1, 2001, and before September 30, 2001, equal to $1.66 * [(1 + \text{resident-to-bed ratio})^{.405} - 1]$. These revisions for FY 2001 will be incorporated into PRICER 01.2.

Decrease in Reductions for Disproportionate Share Hospital (DSH) Payments

Under ' 303 of BIPA 2000, reductions in the DSH payment amounts would be 2 percent in FY 2001, 3 percent in FY 2002, and 0 percent in FY 2003 and subsequently. To implement the FY 2001 provision, DSH amounts for discharges occurring on or after October 1, 2000, and before April 1, 2001, are reduced by 3 percent (which was the reduction in effect prior to enactment of this provision), and for discharges occurring on or after April 1, 2001, and before October 1, 2001, DSH amounts would be reduced by only 1 percent. These revisions for FY 2001 will be incorporated into PRICER 01.2.

Extension of Wage Index Reclassifications

Under ' 304 of BIPA 2000, any decision of the Medicare Geographic Classification Review Board to reclassify a hospital for purposes of the wage index for FY 2001 or any year thereafter shall be effective for a period of 3 years. The Secretary shall establish procedures under which a hospital may elect to terminate such reclassification before the end of such period. These procedures will be forthcoming separately.

Increase in the Incentive Payment for Excluded Psychiatric Hospitals and Units

Section 306 of BIPA amended ' 1886(b)(1)(A) of the Act, and provides that effective for cost reporting periods beginning on or after October 1, 2000, for psychiatric hospitals and units, if the allowable net inpatient operating costs do not exceed the hospital's ceiling, payment is the lower of: (1) net inpatient operating costs plus 15 percent of the difference between inpatient operating costs and the ceiling; or, (2) net inpatient costs plus 3 percent of the ceiling. This increase from 2 percent to 3 percent of the ceiling is applicable only to psychiatric hospitals and units. Interim payments should be adjusted accordingly.

Increase in the Wage Adjusted 75th Percentile Cap on the Target Amounts for Long-Term Care Hospitals (LTCHs)

Section 307(a) of BIPA 2000, which amended ' 1886(b)(3) of the Act, provides for a 2 percent increase to the wage-adjusted 75th percentile cap on the target amount for LTCHs effective for cost reporting periods beginning during FY 2001. This new legislation requires a revision to the cap on the target amounts applicable to LTCHs that were subject to the cap for existing providers as specified in 42 CFR ' 413.40(c).

The August 1, 2000, inpatient hospital PPS final rule published in the *Federal Register* (65 FR 47096) listed the FY 2001 labor-related share and nonlabor-related share of the national 75th percentile wage-neutralized cap for LTCHs as:

Labor-related Share: \$29,284
Nonlabor-related Share: \$11,642

In accordance with ' 307(a) of BIPA 2000, the labor-related and nonlabor-related shares of the cap on the target amount for LTCHs beginning with cost reporting periods beginning during FY 2001 have been revised to reflect the 2 percent increase provided by the new legislation and are shown below:

Labor-related Share: \$29, 870
Nonlabor-related Share: \$11, 875

NOTE: The national 75th percentile wage-neutralized caps on the target amount for the other excluded hospitals and units subject to the caps under ' 1886(b)(3)(H) (psychiatric and rehabilitation) are not affected by ' 307 of BIPA 2000. Interim payments should be adjusted accordingly.

Increase in the Target Amounts for LTCHs

Section 307(a) of BIPA 2000, also amends ' 1886(b)(3) of the Act, to provide for a 25 percent increase to the target amounts for LTCHs for cost reporting periods beginning in FY 2001. This new legislation requires, beginning with cost reporting periods beginning during FY 2001, the target amount otherwise determined for a LTCH as specified at 42 CFR ' 413.40(c)(3)(vii) is multiplied by 1.25 (i.e., increased by 25 percent). The revised FY 2001 target amounts for a LTCH cannot exceed its wage-adjusted national cap. Note that the 25 percent increase to the target amount under ' 307 of BIPA 2000 is applicable only to LTCHs, and not to other excluded hospitals as defined by ' 1886(d)(1)(B) of the Act (psychiatric, rehabilitation, children's', and cancer hospitals and units). Interim payments should be adjusted accordingly.

Increase in Reimbursement for Bad Debt

As required by ' 4451 of the BBA 1997, allowable bad debt reimbursement for hospitals was decreased by 25 percent for cost reporting periods beginning during FY 1998, by 40 percent for cost reporting periods beginning during FY 1999, and by 45 percent for cost reporting periods beginning during a subsequent year.

Under ' 541 of BIPA 2000, effective for cost reporting periods beginning during FYs subsequent to FY 2000, allowable hospital bad debt reimbursement will be decreased by 30 percent. Therefore, for cost reporting periods beginning during the year 2001 and later, hospital bad debt amounts otherwise allowable shall be reimbursed at 70 percent of the total allowable amount.

The *effective date* for this PM is noted above for each BIPA provision.

The *implementation date* for this PM is April 1, 2001.

These instructions should be implemented within your current operating budget.

This PM may be discarded September 30, 2001.

The contact person for this PM is Stephen Phillips at (410) 786-4531.